

MINUTES OF THE CAPITAL PLANNING ADVISORY BOARD

August 22, 1997

The fourth meeting of the Capital Planning Advisory Board (CPAB) of the 1997 calendar year was held on Friday, August 22, 1997 at 9:00 AM, in Room 327 of the Capitol. Representative Fred Nesler, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Fred Nesler, Chairman; Bill Hintze, Vice-Chairman; Representative Lawrence Brandstetter; Secretary James Codell; Bonnie Howell; Paul Isaacs; Sherron Jackson (representing Gary Cox); Lou Karibo; Senator Denny Nunnelley; Senator Albert Robinson; Laurel True; Judge Anthony Wilhoit.

Guests: Darrell Welch, Cabinet for Families and Children; Doug Robinson, Executive Director, Kentucky Information Resources Management Commission; Joseph Walls, Public Protection and Regulation Cabinet; Leesa Hayden, Nick Schwendeman, and Debra Wash, Administrative Office of the Courts; Susan Carson Lambert, Office of Geographic Information Systems; Tom Engstrom, Department of Education; Londa Wolanin, Kentucky Higher Education Assistance Authority; Ron Bingham, Project Director, EMPOWER Kentucky; Mike Helton, McBrayer, McGinnis, Leslie, & Kirkland; Bob Bender and Kenny Rapiere, Department of Parks; Allen Holt, Governor's Office for Policy and Management; Glenn Mitchell, Transportation Cabinet; Jack Affeldt and Karen Crabtree, LRC.

Press: Dave Baker, Frankfort State Journal.

LRC Staff: Pat Ingram, Mary Lynn Collins, and Jonathan Downey.

Chairman Nesler said the first item on the agenda was the approval of the minutes from the July 17-18 meeting. Representative Brandstetter moved that the minutes be approved. The motion was seconded and passed without objection.

Chairman Nesler asked Pat Ingram, Staff Administrator for the Capital Planning Advisory Board (CPAB), to review the information items included in the members' folders. Ms. Ingram said the first item was a memorandum from Virginia Wilson, LRC Chief Economist, whose presentation at the July 17 CPAB meeting indicated that funds from the Budget Reserve Trust Fund may be utilized for costs related to the spring tornados and flooding. This memorandum states that Dr. Wilson has been advised by the Executive Branch that surplus revenues will be utilized instead to meet these needs and the Budget Reserve Trust Fund will remain at \$200 million.

The second information item was a copy of the overhead transparencies used at the Board's July meeting by Fantus Consulting in its presentation relating to the long-range plan for the housing of state offices in Franklin County.

The third information item was an amendment to the capital plan from Western Kentucky University (WKU) merging its top two priorities: the Commonwealth Center for Instructional Technology and the Journalism Building into one project, the Postsecondary Education Improvement Act of 1997 Facility. It is now WKU's number one priority for the 1998-2000 biennium.

Chairman Nesler introduced Ron Bingham, Chief Project Director, to provide the Board with an update on EMPOWER Kentucky.

Mr. Bingham first reviewed the status of the two major funded projects under EMPOWER Kentucky. The Request For Proposals (RFP) for the Finance and Administration Cabinet's Simplified Administrative Systems project has been released, and the RFP for the Revenue Cabinet's Integrated Tax System will be out in late August.

Mr. Bingham said EMPOWER Kentucky was a special, legislatively enacted project which had some flexibility far outside the normal governmental processes. However, the program will evolve back into these processes. For example, the EMPOWER Kentucky initiatives which were not funded for 1996-98 are going through the regular capital process and were included in the Kentucky Information Resources Management (KIRM) Commission's review of all technology projects.

An EMPOWER Kentucky office will be established and included in the Executive Branch budget on an ongoing basis. Mr. Bingham said the office probably will be staffed by four employees, including secretarial support, and will report to the Secretary of the Executive Cabinet. An office for a Chief Information Officer (CIO) of the state will also be established. Mr. Bingham said one of the primary elements of the technology blueprint for Kentucky is to converge the elements of the state's technology, and the CIO will be the major spokesperson for technology. A screening process is currently underway to select the CIO from over 100 applicants. The CIO will then work with the legislative and executive branches to define the office. Mr. Bingham said it is not clear at this point where oversight for this office will be in the Legislative Branch and the Board may wish to make recommendations in this area.

Mr. Bingham said EMPOWER Kentucky recently released reports concerning the architecture and standards for technology in state government. These standards are intended to allow the state to converge systems over time to improve inter-communication, compatibility, and access for state employees and citizens. EMPOWER Kentucky has also released a report on systems integration and how different systems might be merged and integrated over the next 5-10 years to share information.

Mr. Bingham said pursuant to House Bill 5, which passed in the May 1997 Special Session, Kentucky borrowed \$200 million by issuing tax and revenue anticipation notes, which will allow the state to capture between \$3 and \$6 million in arbitrage earnings in this fiscal year. Additional legislative proposals in the future may include a strengthening of the overview of information technology including how the state implements its technology standards and architecture.

In the area of personnel, two initiatives were withdrawn during that Special Session. The first bill would have shortened the posting time for job vacancies from 15 days to 10 days since these are now accessible on the Internet. This same bill would have eliminated the written tests which are required of current state employees seeking new positions, and replaced them with training and experience reviews. Testing would still be required for new applicants or employees changing specialties or job categories. Mr. Bingham said it was estimated that this initiative would save about 9,000 hours per year in personnel time and would be fairer; the bill will probably be presented again in the 1998 session.

The second bill sought a severance option for those employees whose positions were eliminated due to the EMPOWER Kentucky initiatives. Mr. Bingham said there was some controversy surrounding this proposal because of the limited number of people affected. A decision on resubmitting this proposal for consideration by the 1998 General Assembly has not been made.

Mr. Bingham said he was not sure what legislation might be proposed in the area of electronic commerce, but some will most likely be presented in 1998. He said House Bill 5 addressed several key issues which will allow the state to conduct business electronically (for example, allowing use of the electronic equivalent to a written signature). The intent is to move as quickly as possible into electronic commerce, which is more expedient and efficient than current practices.

Mr. Bingham said there may be legislative or regulatory changes necessary to allow tasks to be performed on a cross-agency basis. These will be necessary because law may now dictate that a particular agency do a specific task which will be shared between agencies in the future. Blending of funds among agencies is also an area to be addressed relative to cross-functional issues.

Mr. Bingham said planning and prioritization of these projects is difficult for a number of reasons. The first is resource limitations. EMPOWER Kentucky has put a great strain on the resources and personnel of the Department of Information Systems (DIS), and it will be necessary to obtain external assistance as more projects are initiated. The projects must also be integrated, and the resources necessary to support a project must be analyzed. Partnerships must be developed in which the vendors are willing to share risks with the state and possibly recoup their expenses later when savings are realized.

Mr. Bingham said a broad based view is needed because counties and cities are being affected by the projects, as well as state government. He said he is working with local governments, but there will need to be major changes including increasing the level of automation in the courthouses and providing ongoing support, possibly 24-hour "help desks," to assist local governments as well as citizens using the new systems.

Mr. Bingham said there must be a better mechanism to obtain feedback from citizens and local governments on the effectiveness of these new programs and systems and on customer satisfaction.

Relative to infrastructure, Mr. Bingham said there should be ongoing training materials and trainers to continue this process throughout government. Mr. Bingham said the Governmental Services Center (GSC) has done a tremendous job of adding the EMPOWER materials and training into their curriculum so that the state no longer needs to hire outside consultants. Mr. Bingham said the community colleges and technical schools may be used to get training and support to offices outside Franklin County. Internal consultants are needed to provide expertise in state government to limit the need for external consultants. This would involve several people in each Cabinet who have had in-depth training and practice and can be used as facilitators for these processes.

In reference to the support desks he mentioned earlier, Mr. Bingham said this might be addressed in a central location, but the need for training and installation may lead to the need for geographical dispersion.

Mr. Hintze said he wanted to reinforce that EMPOWER Kentucky began as a one-shot initiative, but will now continue to be a part of state government. The remaining projects identified and endorsed by the EMPOWER Kentucky Steering Committee are part of the agency capital plans and KIRM high-value recommendations that have come before the Board and will be part of the next biennial budget. He said the institutionalized effort Mr. Bingham spoke of in terms of a CIO and a small EMPOWER Kentucky office are an effort to make this an ongoing program and to integrate it into the rest of state government. Mr. Hintze said there will still be some special latitude sought for the remaining EMPOWER Kentucky program, but it will be less than that sought in the last session.

Representative Brandstetter, in reference to the development of electronic benefits, said the federal government has been working with some quasi-federal agencies, including housing authorities, to initiate electronic reimbursements, etc. He said when this started, it was met with some resistance, but much progress is being made and patience is a key factor. In dealing with local governments, some resistance to change will be met. Mr. Bingham agreed, saying the county or local governments vary widely across the state relative to their use of and access to technology.

Mr. Bingham said he would be glad to come back before the Board to address the issues that are still unresolved. Chairman Nesler thanked Mr. Bingham and said the Board would like to hear from him again at a later date.

Chairman Nesler said the Board would now focus on development of its 1996-2002 statewide plan - addressing the issue-related recommendations before turning its attention to specific project recommendations. He noted that both are important parts of the overall plan. He said measuring the effectiveness of the Board's policy recommendations is not always easy. However, in 1991, CPAB recommended that the Department for Facilities Management develop a long-range plan for housing state agencies in Franklin County. The Board received some information about that plan at its last meeting and hopes to receive the final plan at its early October meeting.

Chairman Nesler asked Ms. Ingram to discuss the timetable under which the Board will work in developing its capital plan. Ms. Ingram referred to the schedule in members' folders and noted that November 1 is the deadline for the Board to present its completed plan to the heads of the three branches of government. The schedule also calls for an October 20 meeting of the Board, which will allow staff 10 days to make any last minute changes and for production of the plan. This meeting will also allow members to see amendments from agencies, which are required to be submitted by October 15. There will also be a meeting on October 2 which will allow the Board to receive the final report from the Finance and Administration Cabinet on the long-range plan for housing state agencies in Franklin County and a "condition of facilities" report from the Council on Postsecondary Education. The Board will also review and act on draft recommendations at that meeting. CPAB staff will send a mailout to members on September 10 to allow members who will be unable to attend the October 2 meeting to present their concerns to staff or the Chairman in advance of the meeting.

Chairman Nesler asked Ms. Ingram to review the proposed issue-related recommendations. Ms. Ingram said the first set of these proposals came from KIRM. Noting that time did not permit their presentation at the July meeting, she asked Doug Robinson, Executive Director of KIRM, to review the recommendations.

Mr. Robinson said KIRM proposes four issue-related recommendations. Relative to the first recommendation, Mr. Robinson said in the future there will be increased complexity in capital information technology items; an enterprise-wide planning approach will involve collaborative efforts between cabinets and agencies and will make it increasingly difficult to separate capital items due to their dependency on each other. The recommendation is that, within guidelines prescribed by the Board, KIRM be given increased flexibility in the approach used for prioritizing capital items.

The second KIRM proposal addresses the issue of network infrastructure and shared use of technology in capital construction projects. Mr. Robinson said this was

addressed to some degree in the current plan with a new cost element for agencies to identify costs related to network infrastructure. KIRM is concerned that the agencies may be applying incorrect figures in developing these cost estimates and its proposal is to work with the Board to develop a set of general cost guidelines (per square foot or per network connection) that would be applied to the internal wiring plant for a new building construction, expansion, or lease. Also, there is not a recommendation in this area, but Mr. Robinson said the Board may also wish to consider how to deal with the concepts of telecommuting and hoteling. Telecommuting could reduce the need for new or expanded office space, thus reducing the associated costs such as maintenance, equipment, and parking. Hoteling is the use of shared office space, which could be particularly useful in regard to field inspectors. Currently, it is used more in the private than the public sector. Relative to hoteling, KIRM is proposing some pilot projects that would have state field workers share space in existing local government or Area Development District offices. KIRM's research indicates that Minnesota requires a telecommuting impact statement from agencies proposing new or expanded facilities.

The third KIRM proposal concerns the information technology lifecycle. It proposes that the definition, dollar thresholds, planning horizons, and reporting of capital information technology be revisited and revised as necessary to reflect the desired planning review intent of both the CPAB and KIRM. Mr. Robinson said the life cycle for some of these items is as little as 18 months and in larger systems it may be 7-8 years. Agencies should be encouraged to put technology replacement into their operating budgets routinely and not submit them as major capital requests.

The fourth KIRM proposal addresses large project management; concerns include the lack of a requirement that a risk assessment be completed prior to undertaking the project and the need to look at total cost of ownership including operating and capital. The proposed recommendation calls for KIRM to work with the Board to include its issues or concerns related to the management and funding of large and/or multi-year information technology projects.

Mr. Robinson said KIRM wishes to work with the Board in developing and implementing these recommendations.

Chairman Nesler asked if these proposed recommendations were a result of today's technology project and the current planning and budgeting processes not relating well to each other. Mr. Robinson replied that there is less integration than there could be in the areas of the budget process and the information technology planning process. The information resources plan is not a budget document, but rather a planning document. KIRM is concerned that the agencies should not perceive this as a budget document, but as a planning document prior to the construction of their capital budget. Mr. Robinson said the timelines of these various processes do not fit well with each other because agencies are often making budget requests before completing their technology plans; KIRM will examine this issue. Addressing

organization and future planning issues is basically on hold until the CIO position is filled. In response to a question from Mr. Hintze, Mr. Robinson said he is unsure if any statutory changes are needed. The "system" definition is in KIRM's administrative regulations, and this is an item that may need to be revisited since it is sometimes misapplied.

Mr. Isaacs said network infrastructure is important not only at initial construction, but adaptability for the future necessitated by changing technology is also important. The Judicial Branch has been recommending that its architects visit the "courtroom of the future" in Williamsburg, where they have employed techniques (such as a raised floor) to allow more flexibility for changing technology.

Representative Brandstetter asked if KIRM has looked into transferring work tasks into centralized locations. He said there are Transportation offices all over the state, and he thought some of their tasks might be centralized through use of technology. This would even the workload and lessen staff downtime. He also asked if some tasks are performed in courthouses that could be done in a centralized location with the information transferred each day. Mr. Robinson said more centralization of technical support is being done, but the trend is toward more "virtual" or electronic government rather than centralizing services. In reference to Transportation's offices, KIRM is looking toward the District Offices providing space for other state workers who are on the road rather than leasing more space for these workers.

Representative Brandstetter said convenience is becoming a big issue in the delivery of most services and "one-stop shopping" is becoming more desired. Combining services into one location promotes efficiency and customer satisfaction.

Chairman Nesler said he would like to delay action on these proposals until the next meeting to allow CPAB staff, KIRM staff, and staff from the Governor's Budget Office to discuss the recommendations and report to the Board at the next meeting. This proposal met no objection.

Ms. Ingram said the next set of issue-related recommendations was proposed by the Council on Postsecondary Education (CPE), and reviewed by Gary Cox at the Board's July meeting. Ms. Ingram said the first recommendation proposes establishment of a Facilities Maintenance, Technology, Equipment, and Government Mandates Pool for postsecondary education facilities.

Mr. True asked what types of equipment and technology would be included in the pool. Ms. Ingram replied that her understanding is that the pool could be used to address any project other than a major new construction project, an expansion/addition, or a major renovation project. She said, unlike most other pools, it is her understanding that this pool could be utilized for projects costing over \$400,000. In response to a further question from Mr. True, Mr. Jackson said the CPE's intent is to allow the institutions to have access to funds on a matching basis to

address government mandates, replacement of structural equipment, and major maintenance. Traditionally, these items have been paid for with fund balances. However, due to budgetary constraints, these funds have become minimal. Mr. Jackson said the intent is for all projects funded from this pool to be less than \$400,000, with anything over that amount going through the regular budget process.

Ms. Howell said there is a need for a maintenance pool to address minor projects. She said she would like clarification of the types of technology and equipment projects that could be included and how maintenance projects will be handled at the postsecondary education institutions under the new reform act. Mr. Jackson said each institution would continue to perform its own maintenance. Mr. Hintze said there is nothing in House Bill 1, passed in the May 1997 Special Session, which changes the existing option for campuses to be completely or partially autonomous in administering their capital construction programs. The legislation, however, does not address the autonomy of the community colleges; this will be determined as the postsecondary education reforms are implemented.

Ms. Ingram said the Facilities Maintenance, Technology, Equipment, and Government Mandates Pool is not one of the trust funds created by House Bill 1. It is a concept first considered in the 1994-2000 capital planning process. As currently proposed, it is a very large pool with very few criteria as to project types and implementation. It is uncertain how this pool would relate to the trust funds being developed under House Bill 1.

Mr. True said he supports a maintenance pool for postsecondary institutions, but is concerned with the use of these funds for the purchase of equipment and technology items. He said the Board should require further definition of eligible projects and how the funds would be distributed. Mr. Hintze said House Bill 1 set up a technology trust fund for the university system and how this trust fund would relate to the proposed pool is also an important question. Ms. Ingram said the concept of a higher education pool as it originated with the Board two years ago was for maintenance and government mandates and did not address technology and equipment. In making its 1996-98 budget recommendation, the CPE included technology as a way to provide funding for institutions that would not need to access the fund for maintenance purposes.

Mr. Jackson said wiring and equipping a building to transmit courses electronically would come under the definition of technology; this addresses the issue of providing courses in areas in the state where there are no postsecondary institutions. The matching funds would allow an institution to contribute rather than asking for 100% funding from the state and also allow the involvement of local and private organizations.

Ms. Ingram said CPAB staff would contact CPE staff to clarify the issues that have been raised.

The second recommendation dealt with energy management, which has been a concern of the Board in the past. The CPE suggests that the Board develop a recommendation encouraging the postsecondary education institutions to utilize the provisions of KRS 56.774 to implement energy management and chiller retrofits. KRS 56.774 is the statute describing an energy management program that was enacted by the General Assembly in 1996, but no state funds were appropriated for it. The statute allows agencies to explore third-party financing to implement energy management programs when state funds are not available. The CPE is encouraging postsecondary education institutions to explore this option. Ms. Ingram said the Department for Facilities Management believes there are a few issues regarding this statute that should be clarified before the program is implemented.

Mr. Jackson said this proposal resulted from the federal mandate that refrigerants with PCBs no longer be used in air conditioning systems by 1999. Due to limited state resources, CPE wants to encourage institutions to work with outside firms that have the expertise to retrofit the chillers and use the energy savings to pay for the project. He added that he does not know if there is sufficient staff in the Finance and Administration Cabinet to implement the program.

Mr. Hintze said at the Board's July meeting, Western Kentucky University also expressed concerns about inadequate staff in the Department for Facilities Management to implement capital construction projects, and the Board may want to address these issues.

Relative to the energy management recommendation, Mr. Hintze said he has been skeptical of pledging to support long-term debt service payments from estimated savings as a representative of Iowa state government discussed with the Board in the 1994/96 interim. He said, given the cost of retrofits, agencies and universities should look at alternatives to direct cash funding, such as this, to finance their projects. However, agencies and universities need some expertise to assist them as they explore this option.

Ms. Howell said the Finance and Administration Cabinet has been aware for some time that the universities have a major problem with their current HVAC systems and need assistance and expertise. She said the Cabinet, in its budget request, will ask for additional staff to assist with needs in this area and this may be a good recommendation for the Board to endorse.

Ms. Ingram said the next CPE proposal was for the joint use of facilities among the community colleges, postsecondary technical schools, and universities where more than one institution is providing educational services in the same locale. This is a recommendation the Board had in its last plan. Judge Wilhoit said he strongly favors this proposal. Chairman Nesler asked if the Board wished to include this recommendation, and there was no objection.

Ms. Ingram said the next set of recommendations in the members' folders concerned various other topics including some which have arisen at previous meetings or were suggested by Board members. The first proposal addressed the need for planning funds for court facilities, as discussed at the last two meetings. She said Mr. Isaacs would present a specific proposal.

Mr. Isaacs said internal discussions at the Administrative Office of the Courts on this and related issues led to the development of the proposal. Due to the large number of court facilities projects that were approved in the 1996-98 budget, the responsibility of the Judicial Branch Facilities Unit has increased greatly. Mr. Isaacs said it also raises the question of the direction the Judicial Branch should take in terms of long-range planning in some areas of the state which lack resources for front-end planning. The Judicial Branch realizes it does not have the funding and resources needed for long-range planning. This proposal would allow for hiring additional staff and outside expertise to start developing an in-depth assessment of the existing court facilities statewide. This resource also would be available to local governments to use in their planning processes. The Board agreed that a recommendation based on this proposal should be prepared.

Relative to the second item, Ms. Ingram said it is a recommendation that has been included in two previous plans and is that the Justice Cabinet and the General Assembly work to reduce the prison population growth rate including alternatives to incarceration. Mr. Hintze said the Board should continue to advocate this position. Judge Wilhoit agreed, saying the recommendations made when groups study issues of crime are usually to increase the length of prison terms. However, no one ever seems to address methods to keep people out of prisons.

Ms. Ingram said item three was very similar to the recommendation the Board had just discussed, with the exception that it deals with juveniles. Mr. Hintze said he also supported this proposal. Chairman Nesler said draft recommendations on items 2 and 3 will be prepared.

In response to a question from Representative Brandstetter, Chairman Nesler said the Board would have the opportunity to discuss the actual recommendations at a future meeting before they become part of the Board's completed capital plan.

Ms. Ingram said item four relates to Mr. Hintze's earlier comments on the possible need for additional staff in the Department for Facilities Management. This issue arose in connection with the WKU plan and the Justice Cabinet plan relating to the long amount of time between project authorization and project completion. Mr. Hintze said the Department for Facilities Management needs the resources to support the large, complex, and changing environment of construction and construction management. Mr. Hintze said there has been discussion of how the existing capital

construction statutes might be changed to expedite the process, while still retaining the appropriate safeguards.

Senator Nunnelley said the main problem is the shortage of funds to meet all the state's capital construction needs.

Ms. Ingram said item 5 is a proposal to encourage universities and agencies to explore, evaluate, and implement technology-based solutions and alternatives to building structures, such as the use of telecommuting, imaging, etc. Chairman Nesler asked the Board if it would like to include this recommendation, and there was no objection.

Ms. Ingram said item 6, relating to the Budget Reserve Trust Fund, addresses a recommendation the Board has traditionally included in its capital plan. Representative Brandstetter said the Board may wish to identify a specific amount for the Fund in this recommendation since one of the main reasons behind the reserve was to improve the state's bond rating. Mr. Hintze said there is a statute which calls for a Budget Reserve Trust Fund of 5% of annual revenues, which currently would provide a \$300 million Fund. This statute was suspended during the current biennium leaving the Fund at \$200 million. He said the rating agencies also favor the 5% level. This Fund was also established as a buffer against an economic downturn. The \$250 million shortfall in Fiscal Year 1993/94 would deplete the amount now in the Fund.

Representative Brandstetter commented that revenue forecasting methods have been changed to provide a much more conservative estimate of the state's income. Mr. Hintze said the Administration and the General Assembly have begun using a statutory consensus forecasting group, which has resulted in very conservative revenue estimates. The rating agencies also favor this forecasting method. He said he supports the proposed recommendation and Representative Brandstetter suggested making it stronger. Chairman Nesler asked Representative Brandstetter to work with staff in developing this recommendation.

Ms. Ingram said the next proposal relates to a previous recommendation of the Board. In the 1992-98 capital plan, the CPAB recommended a statutory change to require state agencies to annually report to the Finance and Administration Cabinet any changes in their use of leased space. KRS 56.8135 has an expiration date of July 13, 1998. In the summer of 1996, the Department for Facilities Management was asked to address this provision in its report on the implementation of various statutes relating to space utilization. The Department said periodically letters are sent to agencies reminding them of their responsibility to submit this report, but responses from the agencies to date have had negligible impact on space utilization.

Ms. Howell said it is difficult to get this type of information from agencies, and it has not had any real impact on space utilization so she favors allowing the statute to expire. In response to a question from Senator Robinson, Mr. Hintze said the sunset

provision was added to provide an opportunity to see if the reporting requirement had any utility with respect to policy changes and evidently it did not. Chairman Nesler asked the Board if it favored allowing this statute to expire, and there was no objection.

Chairman Nesler asked if the Board had any other comments. Mr. Hintze said at the two-day meeting in July, there were a number of projects discussed that did not exactly conform with the Board's instructions on which projects must come before it. These were major facilities, such as the Juvenile Justice Maximum Security Replacement Facility, which were being pursued through means that did not involve direct state financial support of construction. He said he was not sure if the statutes are clear on this, but the Board's instructions apparently were not. Mr. Hintze said projects like this are at the heart of what the Board reviews. He said the facility itself is a capital investment of the Commonwealth, and as such is an integral part of the agency's six-year capital plan. He said the method by which an agency acquires needed facilities is less important than the fact that a critical statewide need and priority has been identified. Privatized approaches have not been used much in Kentucky but are being proposed now as an alternative to traditional construction financing. Mr. Hintze said he did not want the Board to miss those types of developments and proposed a "sense of the Board" recommendation to ensure that such projects come before the Board.

Senator Nunnelley said he endorsed Mr. Hintze's comments, but did not want to be so restrictive that an alternative funding mechanism is not sought for fear of having to appear before the Board and gain its approval. Mr. Hintze agreed. Chairman Nesler asked how this proposal fits with comments made in previous meetings relating to capital projects that are developed with private funds with no mention in the legislative process and then turned over to the state to be maintained. Mr. Hintze said no one wants to impede private fund raising where it is appropriately invested in a public purpose which is supported by the General Assembly. He said this was an issue the Board attempted to address two years ago, but was not successful.

Senator Nunnelley asked what would happen if capital facilities are left to the state by an individual's will and if the Board needed to incorporate procedures that address how the university or agency deals with these facilities.

Mr. Jackson said most such situations are already addressed. In the interim, privately funded projects are submitted to CPE for review and approval, then for action by the Capital Projects and Bond Oversight Committee through the Finance and Administration Cabinet. In the budget request cycle, institutions are instructed to list any project, regardless of sources of funds, that they intend to pursue in the upcoming biennium. A facility, constructed with private funds, with the expectation that the institution will use state funds to maintain it, must be submitted to the Council for its approval. Finally, Boards of Regents and Trustees are statutorily vested with the responsibility to examine the impact of donations to the institutions and how they

would be used for the benefit of the Commonwealth. He said additional safeguards in that area might not be necessary. Mr. Jackson said he agreed that all projects, regardless of source of funds or manner of construction, should be reviewed by the body responsible for oversight.

Chairman Nesler asked Mr. Hintze to work with staff to develop his recommendation. He said the Board would now turn its attention to project-related recommendations. At the last meeting, the Board agreed to submit lists of 20 project recommendations. Chairman Nesler noted that there was a good response to this approach. Approximately 90 different projects were listed, about 50 of which were mentioned multiple times by members. He said this list of most-often-mentioned projects would be a good starting point for the Board. Projects related to maintenance pools appear at the top of this list with the others listed in alphabetical order. Chairman Nesler said that, appropriately, members were more interested in the need for the project than the project cost. He further noted that the projects primarily involved maintenance of existing facilities, public safety, construction and technology to improve state efficiency, and local assistance programs. The bond pool proposed by CPE was also mentioned, and Chairman Nesler said the Board may want to reinforce its concern that universities invest adequate amounts of their own resources in campus maintenance.

Mr. Hintze said the Board should continue to place maintenance of existing facilities as its top priority. He said he is concerned that the maintenance pools are utilized for smaller projects, but the recommendation misses larger projects of over \$400,000 that are of equal concern to the Board. Mr. Hintze said the dollars associated with some of the projects, such as the infrastructure and school facilities pools, may be changed as they move through the budget process. He said he felt the consensus of the Board is that these are important to continue as top statewide priorities and needs, with actual amounts subject to change.

In response to a question from Mr. True, Mr. Hintze said the New State Office Building, which houses the Transportation Cabinet and Department of Corrections, has twice received funding from the General Assembly for renovations and to address life safety issues. When those appropriations were made the plan was to renovate the building two floors at a time, displacing the employees on those floors temporarily. The bids have come in at \$35 million or more using this approach compared to the \$22 million currently available, and there is not a state-owned location to house employees if the building is vacated in order to reduce the cost of the project. The Department for Facilities Management proposes that the state wait to renovate the New State Office Building until the employees can be relocated elsewhere, which creates a need for a place to house those employees. It has been determined that they should be placed in a state-owned facility rather than in leased space or trying to do the renovation project piecemeal. Mr. Hintze said this will delay the renovation further, but even if started now, it would be years before the project could be completed if done on a piecemeal basis.

In response to a further question from Mr. True, Mr. Hintze said if funding is not provided for a new office building, the funds proposed for renovation of the New State Office Building on a floor by floor basis are a fall-back position. In response to a question from Mr. Isaacs, Ms. Howell said renovation of the building after it is vacated will cost \$3-4 million less, and will be much quicker.

Mr. True said he had placed one juvenile detention facility on his list of 20 projects. He is concerned that the state may be proposing to construct too many of these facilities at one time. He recognizes that housing juveniles is a problem for the state, but this is a large number of juvenile facilities to bring on-line at one time and may impact the state's ability to address other needs. Mr. True said he would like to see the Board get more information and have a better understanding of this issue before making its recommendation. Chairman Nesler said in a few meetings he had attended relating to juvenile detention in the Western Kentucky area, he had noticed that the counties are having a very difficult time meeting the cost of housing juveniles. He is alarmed that in these meetings, alternatives to placing juveniles in detention centers were brought forth, but were not given much support. He said there are ways to address the juvenile problem other than building so many new centers.

Mr. Isaacs said it has put a great strain on local governmental budgets to transport juveniles a great distance to locally-owned holding facilities that charge unregulated fees which are more in relationship to paying bonded indebtedness than the actual cost of housing the juveniles. It is very costly to build secure juvenile facilities. The other factor is how many juveniles need to be in secure facilities and what alternatives are available that have not been explored to this point. Mr. Isaacs said there are serious offenders who need secure facilities, but the state needs to consider that in the future, when the juvenile population begins to drop, facilities built now may no longer be needed. He agreed that facilities are needed in different parts of the state, but the size of the facilities and the possibility of providing some non-secure facilities and other less costly alternatives need to be examined. He said this is an issue with which the state has struggled for some time.

Mr. Hintze said the Department for Juvenile Justice has been developing a draft juvenile detention plan. To put into context the need and magnitude of investment in facilities, it would be helpful for the Board to have an overview of this plan when it is available. He noted that the roles of local government and state government in addressing this need have not been clearly determined yet. The state is constructing three secure juvenile detention facilities at this time with six more proposed; and, relative to post adjudication issues, the state is proposing the one maximum security juvenile facility discussed earlier and expansion of existing facilities.

Mr. True said the restricted fund projects, such as the Kentucky Information Highway, might be recommended as a group by the Board. Ms. Howell said the Board should be careful not to exclude other agency-funded projects. When she made her

list of 20 projects, she did not give as much consideration to projects funded through restricted funds because, although they are important, she concentrated on projects involving state funds. Ms. Ingram said in the last plan there was a separate recommendation that included all projects to be funded with 100% restricted funds, with some caveats that use of the funds would not interfere with other agency operations also funded with restricted funds. A few restricted fund projects were also specifically identified. She said it was a bit more awkward in this process due to the close relationship of restricted fund projects to some of the state funded projects to address reducing the amount of leased space in Franklin County.

Ms. Howell asked if it is the Board's intent to take the list of most-often-mentioned projects and prioritize it. Chairman Nesler said he feels the Board is not interested in trying to prioritize a list to the extent it did in the last planning process. He asked the Board for its input.

In response to a question from Senator Robinson, Chairman Nesler said it is his understanding that the Board should make long-range capital plan recommendations to the Governor and the General Assembly and not worry about which projects might be included if another project is withdrawn or no longer needed. Ms. Howell said in the case of the New State Office Building renovation, the Finance and Administration Cabinet would be comfortable with language in the Board's recommendations that it supports funding for renovation of this building, while recognizing that no funding will be needed in the next biennium if a new office building is authorized. She asked if it would be worthwhile for the Board to take this list and narrow it down further by prioritizing it.

Mr. True said he was surprised that some projects got as many as 12 "votes." He said this shows strong support for some of these projects. Mr. True said he would like to see the Board give these projects some special merit. Ms. Howell said she agreed, although there were a number of projects that received only one vote, and to group all of these together might be doing a disservice to the list. She said while prioritization might not be needed, some additional grouping may be appropriate. Senator Robinson said the projects on the lists that Board members submitted were not prioritized, so a project that received many "votes" might not necessarily be a top priority.

Chairman Nesler said staff was asked to take the lists submitted by the members and determine which projects appeared most often. He asked the Board if it wanted to take these projects and prioritize them or develop groupings of projects. Mr. Hintze commented that he did not wish to develop a list of 1-97 priorities as was done in the last planning process because this places an undue burden on staff and the Board. He also cautioned against too great an attempt to prioritize items at the top of the list, because this might dilute the number one priority of maintenance. He said this was broader than the maintenance pools and should include maintenance in postsecondary education and deferred maintenance throughout the state. He does

not regard the list of most-often-mentioned projects as the only meritorious projects, and would not want the Board to give the impression that these are the only important projects. He said there are other good projects identified by requesting units of government as their top priorities, and there will be some amendments to the current plans. At the July meeting, representatives of both higher education and Kentucky Tech said they were under an entirely new system of governance and want their capital requests to reflect the direction of their new boards. He said this is a good group of projects for the Board to consider for their statewide impact.

Mr. Karibo asked if it would be beneficial to rank projects by funding source. Mr. Hintze said agencies sometimes request a funding source out of convenience, not because it is the best funding source. He cautioned against too much emphasis on the specific funding source, but said emphasis should be placed on need and priority.

Mr. True said it would be desirable to have something that indicates a high priority group of projects. The Board might pick out 20 projects which it feels have exceptional merit for long-range impact on the Commonwealth of Kentucky. He said he would be disappointed for the Board to expend so much time and effort without making its recommendations more specific so they will be more valuable to decision makers. Mr. Isaacs said the Board might wish to place a higher priority on projects for which there is an immediate need, for example replacement of the Kentucky State Police radios. Mr. Hintze said immediacy is an important consideration, but the unintended result may be to disregard larger projects that cannot be delivered quickly.

Ms. Howell said developing a top 20 list might be beneficial. A short list does not convey the message that any unlisted project is not important, rather that these are the most important, at least in terms of projects proposed from the general fund or state-supported bond funds. Then there would be an acknowledgment that there are other valuable projects that should be considered.

Chairman Nesler said of the projects listed by members on their individual lists, there were approximately 20 projects that were mentioned several times. He asked the Board if it might want to take this group and try to rank them. He said he has been comfortable with the process to this point and is comfortable with the current list of 50. Chairman Nesler said determining how to deal with the project recommendations is always the most critical decision made by the Board.

Mr. Jackson said House Bill 1 created the Kentucky Community and Technical College Systems Board, which has responsibility for making recommendations for operating and capital budgets of both the technical schools and the community colleges. This Board was just appointed and has not yet begun to deal with these budgets. With CPE's recommendation that institutions share facilities whenever possible, there has not been the opportunity for this to be considered relative to the technical schools. There are some projects on the list before the Board that may need to be altered once these considerations are examined. Mr. Jackson said taking this

list of most-often-mentioned projects and narrowing it further reduces an opportunity for this newly-created board to have input. He said when Mr. Cox developed his list of 20 projects, he specifically left an opening for a future priority to be named by the KCTCS board.

Ms. Ingram said these changes that may take place will affect projects in the future, but not in the timeline under which the Board must work. If the Board waits for all of these issues to be finalized, it will be unable to complete a plan on time. Ms. Ingram said the Board's plan is not a preliminary budget recommendation, and other projects can enter the process later. She added that the Board's plan can include some narrative recognizing that postsecondary education reform was initiated as the Board developed its plan and some worthy projects may not be reflected in the Board's specific recommendations.

Ms. Ingram said the staff could send the current list of approximately 50 projects out and allow members to identify their top 20 projects and see what the results are.

Mr. Karibo suggested the Board take the maintenance pools and let it be a recommendation by itself, let restricted funds projects be one category, and rank the other projects by the number of "votes" they received from members. Senator Robinson pointed out that the members' lists of 20 projects were not in priority order, so the number of "votes" is not indicative of a priority ranking.

In response to a Board member's question, Ms. Ingram said the total cost reflected in the most-often-mentioned list was over \$1 billion. Mr. Hintze said this amount would far exceed the amount appropriated for capital construction in 1996-98, but is less than in some previous biennia. He said the Board's plan is solely a planning document, not a budget document, and should reflect an assessment of need and priority; the Board should not dwell on the dollar amounts.

Mr. True suggested grouping some of the other pools with the maintenance pools as priority number one. Mr. Hintze said he would agree and that it should include the deferred maintenance pools and a redefined version of the CPE maintenance pool. Ms. Howell also agreed, saying this category should include the contingency fund and the emergency fund.

Chairman Nesler asked if this was the pleasure of the Board. Mr. Hintze said the Board should reaffirm maintenance, as expanded, as the top priority. There being no objection, Chairman Nesler said this would be the Board's top priority. He asked the Board if it wanted to make any recommendation as to which area of maintenance should be a higher priority or leave it as one grouping. Mr. True said the Board probably does not have sufficient information to narrow these maintenance items further.

Senator Nunnelley moved that the Board accept the maintenance pool category as the number one priority, and that staff send members a list similar to the current list on which they could prioritize numbers 2 to 20 from the projects listed on that page. Mr. Karibo said projects involving no state funds should be grouped together. Ms. Howell said if the Board included only the projects that appeared on the members' submitted lists, other proposed non-state funded projects would be excluded. She said the Board should state that it is only prioritizing general fund and general fund supported bond projects.

Chairman Nesler repeated that the motion by Senator Nunnelley was to make maintenance pools the number one priority and rank the remaining projects on the most-often-mentioned list from 2 to 20. This motion was seconded by Mr. Karibo. Ms. Howell clarified that the contingency fund and emergency fund are now included in the priority one. Mr. Jackson asked if the CPE pool would also be included. Mr. Hintze said it would be with the caveat that it needs to be defined, especially with respect to technology and equipment and the threshold of the projects involved. Mr. True said, and Chairman Nesler confirmed, it is his understanding that this would generate a working document for the Board's next meeting. Chairman Nesler asked if there were other comments. Being none, he asked the Board if it wished to adopt the motion made by Senator Nunnelley and seconded by Mr. Karibo. The motion was adopted without objection.

Chairman Nesler said the prioritized lists would be submitted by members before the next meeting and also at that meeting the more detailed issue-related recommendations would be reviewed.

Mr. Karibo moved that the meeting be adjourned. Senator Nunnelley seconded the motion, and the meeting was adjourned at 12:15 pm.